

VZCZCXRO5871
PP RUEHAG RUEHROV RUEHSL RUEHSR
DE RUEHRL #1138/01 2581217
ZNY CCCCC ZZH
P 151217Z SEP 09
FM AMEMBASSY BERLIN
TO RUEHC/SECSTATE WASHDC PRIORITY 5196
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUCNFRG/FRG COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUEHC/DEPT OF LABOR WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BERLIN 001138

STATE FOR EEB (NELSON), DRL/ILCSR AND EUR/CE (SCHROEDER)
LABOR FOR ILAB (BRUMFIELD)
TREASURY FOR ICN (KOHLER)
SIPDIS

E.O. 12958: DECL: 09/13/2019
TAGS: [ECON](#) [EFIN](#) [ELAB](#) [PGOV](#) [PREL](#) [GM](#)
SUBJECT: ECONOMIC ISSUES DOMINATE GERMANY'S 2009 GENERAL
ELECTIONS

REF: A. BERLIN 1061
[1](#)B. BERLIN 938

Classified By: A/EMIN INGRID KOLLIST FOR REASONS 1.4 (B) AND (D).

[1](#)1. (C) SUMMARY. As they head to the polls on September 27, German voters have one major worry on their minds: the economy. Well aware of this reality, the five viable political parties -- the Christian Democratic Union (CDU)-Christian Social Union (CSU), Social Democratic Party (SPD), Free Democratic Party (FDP), the Green Party and the Left Party -- are bumping up against each other as they position themselves to address a similar set of concerns. Adding to the pressure is Chancellor Merkel's (CDU) own success in grabbing the centrist, middle ground, leaving her rivals no choice but to advocate similar solutions. As a result, a relatively high degree of consensus exists on key economic issues, such as financial sector reform, the role of state aid, and the overall orientation of the Germany economy. Contributing further to the appearance of consensus is the Chancellor's shift away from policy details to a strategy intended to reinforce her image as an effective leader during a time of crisis. While some differences among the parties' economic platforms clearly exist, especially on how best to promote economic growth and jobs, broader continuity is the prevailing order of the day. Regardless of its outcome, the election is unlikely to have a significant impact on U.S.-German economic relations. END SUMMARY.

ISSUE NUMBER ONE: FINANCIAL/ECONOMIC CRISIS

[1](#)2. (C) Opinion surveys suggest the economy is the top priority issue for most Germans in the September 27 election. Economist Stormy-Annika Mildner of the German Institute for International and Security Affairs (SWP) told us that, despite continued anxiety over unemployment, many Germans credit Chancellor Angela Merkel (CDU) with shepherding the country through the darkest days of the financial and economic crisis. In close collaboration with SPD Finance Minister Peer Steinbrueck, Merkel employed a variety of tools not normally associated with her right-of-center party: fiscal stimulus programs, generous bailouts, and subsidies for companies agreeing to retain employees part-time, among others. The cumulative effect has been a quicker than expected stabilization of the economy, with positive growth of 0.3 percent in the 2nd quarter of 2009. Unemployment, the best gauge of popular economic pain, crested at 8.6 percent in March-April 2009 before falling to 8.3 percent in August. As a result, criticism from the other viable parties -- SPD, FDP, Green Party and Left Party -- has failed to strike a chord with many Germans. This has been especially troubling for Merkel's chief opponent, SPD Foreign Minister Frank-Walter Steinmeier.

13. (SBU) When it comes to addressing the crisis longer-term, all five viable parties competing on September 27 share a similar strategy: increase regulation and supervision of the financial sector. Differences are at the margins. The Left wants to limit speculation, tighten antitrust rules, ban short selling, and make financial markets more "democratic." The Greens propose temporarily nationalizing banks, and taxing financial transactions. The SPD advocates taxing share trades over 1000 euros and monitoring private equity funds more closely. The CDU/CSU and FDP propose concentrating financial supervision under the authority of the Bundesbank. All five support better coordination at the EU level to prevent future crises.

14. (SBU) On the surface, state aid to the private sector might appear more divisive. Voices in the CDU/CSU and FDP have bemoaned the Grand Coalition's willingness to prop up struggling companies through direct bailouts, loan guarantees and other market interventions. Serious debate, however, has centered mainly on which firms are systemically important, and how many jobs are at stake. And of course, constituencies matter. Economics Minister Karl-Theodor zu Guttenberg (CSU) initially criticized government involvement in General Motors' (GM's) sale of Opel, but stayed silent about the 100 billion euro rescue of troubled lender Hypo Real Estate (HRE), based in his home state of Bavaria. Guido Westerwelle, leader of the market-friendly FDP, criticized Merkel's handling of the Opel bailout, but has steered clear of dismissing a government role in saving Opel jobs, some of which are in his home state of North Rhine-Westphalia. In the end, jobs trump other concerns, even long-term fiscal consequences.

BERLIN 00001138 002 OF 003

15. (SBU) Trade is not a high-profile issue in the campaign, but it is noteworthy that all five parties are committed to open markets. After all, exports contribute some 40 percent of German GDP. Emphases vary, of course: the SPD, Greens and Left want environmental and social standards included in trade agreements, and call for an elimination of agricultural export subsidies and a stronger role for developing countries in trade negotiations. The CDU/CSU stress the protection of intellectual property rights, and the FDP worries about protectionism, domestic subsidies and discriminating market access. No party -- not even the Left -- wants to restructure the German economy to reduce export-dependency and address global imbalances. Too many well-paying jobs ride on the continued success of the export sector.

GREEN JOBS VS. TAX CUTS

16. (SBU) Larger differences emerge when it comes to economic growth and job creation. Reflecting a perceived synergy between improving environmental standards and boosting employment, the Greens propose a "Green New Deal," which would see investment in electricity, railways and research directed towards renewable technology, creating a million new jobs. The Left also aims to create a million jobs by investing in ecological restructuring, research, education, and public infrastructure, and would create another million new government positions and 500,000 additional publicly-funded jobs. Steinmeier's (SPD) "Deutschland Plan" envisages creating 4 million jobs through a "green revitalization" of German industry. For none of these three parties is tax reform the primary means of promoting growth and jobs.

17. (SBU) The CDU/CSU and FDP, however, see tax reform as the best way to generate growth and jobs. The CDU/CSU is actually the only party proposing no tax increases whatsoever, and advocates dropping taxes for low-income earners and raising the floor for the top tax bracket. It would also decrease the corporate tax rate, and enact tax incentives for public and private sector research and development. The FDP proposes a radical overhaul of the tax

code. It would raise the tax allowance and dramatically cut taxes for low earners. The effective rate would then increase for the mid-level, but fall for higher earners. The FDP also wants to stagger the corporate tax rate, raising it for businesses with higher earnings and dropping it for those making less. The FDP's proposals would decrease revenues by 35 billion euros annually, which the party hopes to offset through spending cuts and improved revenue collection.

¶8. (SBU) Also debated is minimum wage policy (REF A). (NOTE: Currently, Germany has no minimum wage.) Both the SPD and Greens want the minimum wage set at 7.50 euros per hour, but the Left Party has trumped them with a proposal of 10 euros. The CDU/CSU supports a "fair wage," but has shied away from a national minimum. It has also floated the idea of varying the minimum wage by sector, which has effectively taken yet another issue away from the SPD. (The SPD had hoped to make the minimum wage a major campaign theme.) The FDP does not favor setting a minimum wage.

MERKEL LEADS, BUT SHORT ON DETAILS

¶9. (C) While the CDU/CSU party platform certainly contains some concrete policy proposals, there are still many unanswered questions. Milder told us Chancellor Merkel is deliberately vague, and instead focusing her campaign on leadership qualities. One reason is because differences on the biggest issues -- those relating to the financial/economic crisis -- are small, and provide few opportunities to bring unique ideas into relief. Neither she nor Steinmeier can credibly distance himself from the Grand Coalition's policies, after all. Also important is Merkel's experience in 2005, when she articulated bold proposals, like raising the value-added tax. This frightened voters, and her unassailable lead all but vanished and forced her into partnership with the SPD. Whatever lies behind her strategy, Merkel's opponents also see an opening: lack of detail means they can paint her with their own brush. The SPD is warning voters against a conservative CDU/CSU-FDP coalition (an outcome that while possible is far from certain), and highlighting the FDP's more "radical" proposals.

BLACK-YELLOW IMPLICATIONS

BERLIN 00001138 003 OF 003

¶10. (C) These claims are probably exaggerated. Sandro Maluck, an economic advisor at the Chancellery, told us a "black-yellow coalition" (i.e., a CDU/CSU-FDP coalition) would probably bring very few changes to German economic policy. This is even the case with tax reform: CSU chief Horst Seehofer, for one, recently criticized the FDP plan, even though FDP leader Guido Westerwelle has said tax reform is a deal breaker for his party's joining a coalition. Economist Christoph Trebesch of the Hertie School of Governance told Embassy that neither the CDU/CSU's nor the FDP's tax proposals are realistic in any event. The budget deficit is expected to be more than 2 percent this year and 4 percent in 2010, just as mid-term targets for Germany's balanced budget amendment kick in. Effective tax increases and/or spending cuts are therefore a near certainty. According to Maluck, another potential difference is the proposed 2021 nuclear phase out, which the CDU/CSU and FDP oppose. Any radical departure from the current course, however, would surely provoke a sharp reaction from the other three parties (REF B).

COMMENT

¶11. (C) After four years together, the CDU/CSU and SPD are bleeding voters to the smaller, more ideologically pure parties on the margins. Some of the pro-business support in the CDU/CSU has drifted towards the FDP. This is primarily a longer-term problem for the Chancellor, however. In the short term, Merkel would like to hang onto her enviable popularity and the CDU's polling levels (35-37 percent), and

perhaps even gain voters. Such an ambition is a difficult balancing act, and one which partly explains Merkel's reluctance to delve too deeply into policy minutiae. She certainly owes much to a stabilizing economy, and especially the moderate unemployment numbers thus far.

¶12. (C) Even with a shift to a CDU/CSU-FDP coalition, there would not be much of an impact on German-U.S. economic cooperation. From repairing the global financial system to concluding Doha, our collaboration can be expected to continue largely as before. More important may well be which individuals take over the various ministries, especially the Foreign Ministry and Finance Ministry. Conventional wisdom is that the former will go to the FDP, while the latter to the CDU/CSU.

Murphy